FILED
MAR 31 1955
HAROLD B. WILLEY, Cle

In the Supreme Court of the United States

OCTOBER TERM, 1954.

No. 688

THE AUTOMATIC DIE & PRODUCTS CO.,
an Ohio corporation,
Petitioner,

vs.

JOHN M. CAMPBELL and PHILMORE J. HABER,
as Trustees for
THE CORK-A-LITE DEVELOPMENT TRUST,
Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE SUPREME COURT OF OHIO.

LAWRENCE C. SPIETH,
1216 Union Commerce Bldg.,
Cleveland 14, Ohio,
Counsel for Petitioner.

HAROLD K. BELL,
WILLIAM M. NELSON, JR.,
JAMES S. PEDLER, JR.,
1216 Union Commerce Bldg.,
Cleveland 14, Ohio,
Of Counsel.

THE GATES LEGAL PUBLISHING CO., CLEVELAND, OHIO—MAIN 1-8847

TABLE OF CONTENTS.

PETITION FOR WRIT OF CERTIORARI TO THE SUPREME COURT OF OHIO 1

Opinions Below 2

Jurisdiction 2

Questions Presented 2

Constitutional Provision and Statutes Involved 3

Statement of the Case 4

Reasons for Granting the Writ 8

Argument 10

I. It is well established from the decisions of this Court that a patentee who engages in monopolistic practices expanding his patent grant will not be aided by the courts in enforcing his rights under the patent 10

II. The Federal courts which have directly passed on this question have unanimously held that the presence of a provision in a patent license agreement protecting the patentee from competition is illegal per se 13

III. Local rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the patent statutes, misuse of patents doctrine, and the Clayton Act, must yield to the greater public interest which precludes the enforcement of such unlawful agreements 18

Conclusion 23

APPENDIX ..... Attached

Decision of the Supreme Court of Ohio 1a

Opinion of the Supreme Court of Ohio 2a

Report of Arbitrators, With Findings of Fact, Conclusions and Award (Defendant's Exhibit 1) 10a

Supplemental Report of Arbitration (Defendant's Exhibit 2) 33a

Dissenting Report of James T. Hoffmann (Defendant's Exhibit 3) 42a

Separate Concurring Opinion (Defendant's Exhibit 4) 48a

TABLE OF AUTHORITIES.

Cases.

American Tobacco Company, et al. vs. U. S., 328 U. S. 781, 90 L. Ed. 1575, 66 S. Ct. 1125 (1946) 10

Automatic Radio Mfg. Co. vs. Hazeltine Research, Inc., 339 U. S. 827, 94 L. Ed. 1312, 70 S. Ct. 894 (1950) 12, 15, 22

Blount Mfg. Co. vs. Yale & Towne Mfg. Co., 166 F. 555 (1909) 11

Fitzsimons vs. Eagle Brewing Co., 107 F. 2d 712 (C. C. A. 3, 1939) 19, 20

International Salt Co. vs. U. S., 332 U. S. 392, 92 L. Ed. 20, 68 S. Ct. 12 (1947) 10, 11

Katzinger vs. Chicago Metallic, 329 U. S. 394, 91 L. Ed. 374, 67 S. Ct. 416 (1947) 22

MacGregor vs. Westinghouse Elec. and Mfg. Corp., 329 U. S. 402, 91 L. Ed. 380, 67 S. Ct. 421 (1947) 9, 18, 22

McCullough vs. Kammerer Corporation, 166 Fed. 2d 759 (1948), cert. den. 335 U. S. 813, 93 L. Ed. 368, 69 S. Ct. 30 ..... 2, 9, 13, 15, 16

Mercoid Corporation vs. Mid-Continent Co., 320 U. S. 661, 88 L. Ed. 376, 64 S. Ct. 268 (1944) 20

Morton Salt vs. Suppiger Co., 314 U. S. 488, 86 L. Ed. 363, 62 S. Ct. 402 (1942) 11, 12, 13, 14

Nachman Spring-Filled Corporation vs. Kay Mfg. Co., 139 Fed. 2d 781 (C. C. A. 2, 1943) 19, 21

National Lock Washer Co. vs. George K. Garrett Co., 137 Fed. (2d) 255 (1943) 2, 9, 13, 14, 15, 16

Oscanyan vs. Winchester Repeating Arms Co., 103 U. S. 261, 26 L. Ed. 539 (1881) 19

Park-In Theatres, Inc. vs. Paramount-Richards Theatres, 81 Fed. Suppl. 466 (1948), 90 F. Suppl. 730 (1950), affirmed 185 Fed. 2d 407, cert. den. 341 U. S. 950, 95 L. Ed. 1373, 71 S. Ct. 1017 ..... 2, 9, 13, 16

Pyrene Mfg. Co. vs. Urguhart, et al., 69 F. Supp. 555, aff'd, 175 F. (2d) 408 (1949) 11

Roberts vs. Criss, 266 F. 296 (C. C. A. 2, 1920) 19

Scott Paper vs. Marcalus, 326 U. S. 249, 90 L. Ed. 47, 66 S. Ct. 101 (1945) 18, 19

Sola Elec. Co. vs. Jefferson Elec. Co., 317 U. S. 173, 87 L. Ed. 165, 63 S. Ct. 172 (1942) 9, 18, 19, 21, 22

Transparent-Wrap Machine Company vs. Stokes, 329 U. S. 637, 91 L. Ed. 563, 67 S. Ct. 610 (1947) 10, 17

United Shoe Machinery Corp. vs. U. S., 258 U. S. 451, 66 L. Ed. 708, 42 S. Ct. 363 (1922) 10

U. S. vs. Columbia Steel Co., et al., 334 U. S. 495, 92 L. Ed. 1533, 68 S. Ct. 1107, reh. den. 334 U. S. 862, 92 L. Ed. 1781, 68 S. Ct. 1525 (1948) 11

U. S. vs. Line Material Company, 333 U. S. 287, 92 L. Ed. 101, 68 S. Ct. 550 (1948) 9, 10, 13

U. S. vs. Trenton Potteries Co., 273 U. S. 392, 71 L. Ed. 700, 47 S. Ct. 377 (1927) 17

U. S. vs. Yellow Cab Co., et al., 332 U. S. 218, 91 L. Ed. 2010, 67 Sup. Ct. 1560 (1947) 11

Texts.

Restatement of Contracts, Sec. 600, Comment 19

Williston, Contracts (Rev. Ed.) Sec. 1630A 19

Constitution.

Constitution of the United States, Article I, Section VIII 3, 10

Statutes.

Judicial Code, Section 1257 2

15 U. S. C., Ch. 1 2

15 U. S. C. 14 (Clayton Act, Sec. 3) 3

35 U. S. C. 40 (Repealed) 3

In the Supreme Court of the United States

OCTOBER TERM, 1954.

No. . . . . . .

THE AUTOMATIC DIE & PRODUCTS CO.,
an Ohio corporation,
Petitioner,

vs.

JOHN M. CAMPBELL and PHILMORE J. HABER,
as Trustees for
THE CORK-A-LITE DEVELOPMENT TRUST,
Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE SUPREME COURT OF OHIO.

Petitioner prays that a writ of certiorari issue to review the judgment of the Supreme Court of Ohio (made final on January 5, 1955 by its order denying Petitioner's application for a rehearing) affirming the judgments of the Court of Appeals of the Eighth Judicial District of Ohio and of the Court of Common Pleas of Cuyahoga County, Ohio, confirming an award by a Board of Arbitrators and denying Petitioner's cross-petition to vacate the award for royalties under a patent license agreement claimed by petitioner to be invalid under the Misuse of Patents Doctrine and under the Clayton Act.

OPINIONS BELOW.

The opinion of the Supreme Court of Ohio is reported in 162 Ohio St. 321, 55 Ohio Opinions 195 and is included in the attached Appendix. The Court of Appeals for the Eighth Judicial District of Ohio did not write an opinion, nor did the Common Pleas Court of Cuyahoga County, Ohio. The majority and minority opinions of the Board of Arbitrators were offered and received in evidence in the Court of Common Pleas, and are also included in the attached Appendix.

JURISDICTION.

The judgment of the Supreme Court of Ohio was entered December 15, 1954. Petitioner seasonably filed an application for rehearing which was denied January 5, 1955. The jurisdiction of this Court is invoked under Section 1257 of the Judicial Code, and under the Anti-Monopoly Laws, Title 15 U. S. C., Ch. 1.

QUESTIONS PRESENTED.

1. In a suit for royalties under a patent license agreement where the license agreement contains a covenant not to deal in devices competitive with the licensed devices, is it sufficient within the doctrine of the *National Lockwasher, McCullough,* and *Park-In Theatre* cases, for the defendant to show the act of including the covenant and its continued presence, and will such a showing preclude a judgment for the recovery of such royalties?

2. Will local rules of estoppel which would fasten upon the public, as well as the petitioner, the burden of an agreement in violation of patent public policy, the patent statutes, and the Clayton Act yield to the public interest which precludes the enforcement of such unlawful agreement?

CONSTITUTIONAL PROVISION AND STATUTES INVOLVED.

The U. S. Constitution, Article I, Section VIII, provides in part:

"The Congress shall have power * * *

> To promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries; * * *."

Section 3 of the Clayton Act, 15 U. S. C. 14, provides in part:

> "Sale, etc. on agreement not to use goods of competitor.
>
> "It shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies, or other commodities, whether patented or unpatented, for use, consumption or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, or fix a price charged therefor, or discount from, or rebate upon, such price, on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies, or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement, or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce. Oct. 15, 1914, c. 323, Sec. 3, 38 Stat. 731."

Section 40 of Repealed Title 35, U. S. Code provided in part:

> "Every patent shall contain a short title or description of the invention or discovery, correctly indicating its

nature and design, and a grant to the patentee, his heirs or assigns, for the term of seventeen years, of the exclusive right to make, use, and vend the invention or discovery * * * throughout the United States and the Territories thereof, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof. R. S. Sec. 4884; May 23, 1930, c. 312, Sec. 1, 46 Stat. 376."

STATEMENT OF THE CASE.

On January 30, 1950, John M. Campbell and Philmore J. Haber, Trustees of The Cork-A-Lite Development Trust, respondents herein, and The Automatic Die & Products Co., an Ohio corporation, petitioner herein, entered into a written patent license agreement relating to the manufacture and sale by petitioner of respondents' patented Campbell Super Silent automobile engine mufflers.

Pertinent provisions of the contract are:

"1. The trust warrants that it is the sole and exclusive owner of United States letters patent Nos. 2,481,390 and 2,481,391, and an application No. 657,643 for United States letters patent. * * *

* * *

"3. The trust hereby grants to Automatic the exclusive license and right to manufacture and sell, in the United States of America, the Campbell Super Silent automobile engine muffler * * *.

* * *

"5. Automatic will pay to the trust a royalty for the manufacture or sale of said mufflers herein specified, on the net sales price at which said mufflers are sold, as follows: Six per cent. (6%) of the first 200,000 mufflers; five per cent. (5%) of the next 1,800,000 mufflers, and four and one-half per cent. (4½%) on all mufflers sold thereafter * * *.

"6. Automatic agrees to pay the trust a minimum royalty of five hundred dollars ($500) per month, on the last day of each calendar month, commencing with the month of February, 1950. * * *.

* * *

"8. Automatic is hereby given the right at any time to cancel this agreement and be relieved from further responsibility thereunder, and from further minimum royalty payments upon six (6) months' written notice, but any such cancellation shall not be effective before February 1, 1951.

* * *

"10. Automatic will commence the production of mufflers as soon as possible, and will use its best endeavors to market and sell to as wide an extent as its facilities permit the mufflers which are the subject matter of this agreement. Automatic agrees that it will not manufacture or sell any muffler other than the Campbell Super Silent automobile engine muffler, and will not, at any time, engage in any business competing therewith.

* * *

"15. Automatic may sublicense others to manufacture and sell the mufflers under the terms of this agreement, with the same royalties to the trust.

* * *

"24. It is hereby agreed that, in case any disagreement or difference shall arise at any time hereafter between the parties hereto, * * * in relation to this contract, either as to the construction or operation thereof, or performance thereunder, or the respective rights and liabilities thereunder, such disagreement or difference shall be submitted to the arbitration of two (2) persons, one to be appointed by each party to this agreement. If the two persons so appointed are unable to agree within a period of seven (7) days, then such two arbitrators shall appoint a third arbitrator. * * * Thereafter, the three arbitrators shall

> decide the arbitration as soon as possible. * * * An award in writing, signed either by the first two arbitrators appointed, or by two of the three arbitrators, if there are three, shall be final and conclusive as to both parties, and shall not be appealable, nor shall either party have recourse to any court of law or equity as to any disagreement or difference which is subject to arbitration under this clause, if such arbitration is had, and both parties are required to follow the provisions of this agreement as to arbitration."

Prototype production models of these mufflers were manufactured at Cleveland, Ohio, from materials purchased in interstate commerce and negotiations were had with the Lincoln Mercury Division of the Ford Motor Company, which made extensive tests at Detroit, Michigan on the mufflers produced. These and other tests were completely unsatisfactory and no mufflers were manufactured for sale. A dispute arose between petitioner and respondents with respect to the performance of the contract and the respective rights and obligations of the parties thereunder.

Pursuant to paragraph 24 of the contract, respondents demanded an arbitration and the controversy was referred by the parties to a board of two arbitrators, one selected by each side. These arbitrators were unable to agree and, pursuant to paragraph 24 they selected a third arbitrator.

The illegality of the contract was fully presented by petitioner in briefs and argument to the Board of Arbitrators, which on December 19, 1952 with one arbitrator dissenting, made an award to respondents (Defendant's Exhibits 1 and 4 included in attached Appendix) in the amount of Five Thousand Dollars ($5,000.00) representing additional minimum royalties held to be payable under the license agreement. One of the arbitrators who

joined in the majority report refused to pass on the question of illegality on the ground that it was not timely raised (Defendant's Exhibits 1 and 2 included in attached Appendix). The third arbitrator dissented on the ground that the contract was illegal and unenforcible as to royalties (Defendant's Exhibit 3, included in attached Appendix). The arbitrators made certain other determinations and awards in reference to return of machinery and equipment, which have been complied with by petitioner and are not here in issue.

Subsequently, respondents filed a petition in the Court of Common Pleas of Cuyahoga County to confirm the award. Petitioner filed an answer alleging that the contract was illegal and void as being against public policy and also in violation of the Clayton Act and a cross-petition on the same grounds praying that the petition be dismissed and that the award of Five Thousand Dollars ($5,000.00) additional royalties be vacated.

The case was heard in the Court of Common Pleas of Cuyahoga County and all the arbitration proceedings, including the written reports of the arbitrators were introduced in evidence. Thereafter, the Court, without opinion, rendered judgment in favor of respondents confirming the award of the Five Thousand Dollars ($5,000.00) additional royalties.

An appeal was taken from that judgment to the Court of Appeals of the Eighth Judicial District of Ohio, which without opinion, affirmed the judgment below.

Petitioner on the ground of the illegality of the license agreement, the question of estoppel and the award of further royalties filed a motion in the Supreme Court of Ohio to require the Court of Appeals to certify its record to it for review on its merits. The motion to certify was

allowed and the case was heard and argued before that Court.

On December 15, 1954, the Supreme Court of Ohio affirmed the judgments of the Court of Appeals and the Court of Common Pleas confirming the award of the arbitrators. The Court's opinion is included in the attached Appendix.

Petitioner seasonably filed its application for rehearing in the Supreme Court of Ohio, further arguing the illegality of the contract, the Misuse of Patents Doctrine and the erroneous application to the case of a state doctrine of estoppel. The application for rehearing was denied on January 5, 1955.

REASONS FOR GRANTING THE WRIT.

This petition is filed to review the judgment of the Supreme Court of Ohio decreeing:

(a) A covenant in a Patent License Agreement by a licensee not to deal in devices competitive with the licensed devices does not per se constitute a misuse of the patent by the patentee, and

(b) Even if such a covenant is illegal as constituting a violation of patent public policy or the Clayton Act, local rules of estoppel may be invoked to foreclose the defendant from setting-up the defense.

The following reasons are relied on for the allowance of the Writ:

(1) The judgment of the Supreme Court of Ohio decides a question as to the application of the Misuse of Patent Doctrine to a patent license agree-

ment containing provisions protecting the patentee from competition, in a way probably in conflict with a long line of decisions of this Court epitomized in *U. S. vs. Line Material Company,* 333 U. S. 287, 92 L. Ed. 701, 68 S. Ct. 550 (1948).

(2) The judgment is in direct conflict with the decisions of the Circuit Court of Appeals for the 9th Circuit in *McCullough vs. Kammerer Corporation,* 166 Fed. 2d 759 (1948), cert. den. 335 U. S. 813, 93 L. Ed. 368, 69 S. Ct. 30 and the Circuit Court of Appeals for the 3rd Circuit in *National Lock Washer Co. vs. George K. Garrett Co.,* 137 Fed. (2d) 255 (1943) and *Park-In Theatres, Inc. vs. Paramount-Richards Theatres,* 81 Fed. Suppl. 466 (1948), 90 F. Suppl. 730 (1950), affirmed 185 Fed. 2d 407, cert. den. 341 U. S. 950, 95 L. Ed. 1373, 71 S. Ct. 1017 with respect to the legality of covenants in a Patent License Agreement prohibiting the Licensee from the manufacture or sale of competing devices.

(3) The judgment is in direct conflict with decisions of this Court in *Sola Elec. Co. vs. Jefferson Elec. Co.,* 317 U. S. 173, 87 L. Ed. 165, 63 S. Ct. 172 (1942) and *MacGregor vs. Westinghouse Elec. and Mfg. Corp.,* 329 U. S. 402, 91 L. Ed. 380, 67 S. Ct. 421 (1947) which subordinate local rules of estoppel to the paramount Federal policy against misuse of patents.

ARGUMENT.

I. It is well established from the decisions of this Court that a patentee who engages in monopolistic practices expanding his patent grant will not be aided by the courts in enforcing his rights under the patent.

The dominant question before the Court is simply whether a patent license agreement containing provisions which attempt to expand the patent grant can be enforced in view of patent public policy, the patent statutes, and Article I of Sec. 8 of the U. S. Constitution. Paragraph 10 of the instant license agreement provides in part:

> "Automatic agrees that it will not manufacture or sell any muffler other than the Campbell Super Silent Automotive Engine Muffler, and will not, at any time engage in any business competing therewith."

Petitioner contends that the inclusion of such provisions in a patent license agreement is against public policy and is such an act of patent misuse as to render the agreement unenforceable so long as the misuse persists. The philosophy of the patent misuse doctrine is fully set forth in the case *U. S. v. Line Material Co.*, 333 U. S. 287, 92 L. Ed. 701, 68 S. Ct. 550 (1948), at page 316.

This Court has frequently held that the mere act of entering into a contract containing a repugnant provision such as paragraph 10 of the instant license agreement meets all the requirements of an affirmative act constituting suppression of competition. See *United Shoe Machinery Corp. v. U. S.*, 258 U. S. 451, 66 L. Ed. 708, 42 S. Ct. 363 (1922); *American Tobacco Company, et al. v. U. S.*, 328 U. S. 781, 90 L. Ed. 1575, 66 S. Ct. 1125 (1946); *Transparent-Wrap Machine Company v. Stokes*, 329 U. S. 637, 91 L. Ed. 563, 67 S. Ct. 610 (1947); *International Salt Co. v. U. S.*, 332 U. S. 392, 92 L. Ed. 20, 68 S. Ct. 12 (1947).

It is the insistence of the petitioner that the covenant not to compete constitutes not only a misuse of the patent, but an unreasonable restraint of trade under the anti-monopoly laws. The covenant is, in fact, unlawful per se, *U. S. v. Columbia Steel Co., et al.*, 334 U. S. 495, 92 L. Ed. 1533, 68 S. Ct. 1107, reh. den. 334 U. S. 862, 92 L. Ed. 1781, 68 S. Ct. 1525 (1948); *International Salt Co. v. U. S., supra; Blount Mfg. Co. v. Yale & Towne Mfg. Co.*, 166 F. 555 (1909), and, accordingly, it is unnecessary for petitioner to show, as the Supreme Court of Ohio held, that a substantial amount of commerce was restrained, *U. S. v. Yellow Cab Co., et al.*, 332 U. S. 218, 91 L. Ed. 2010, 67 Sup. Ct. 1560 (1947). Similarly, the mere showing of an attempted overreaching of the patent monopoly is enough to prove an abuse of the patent in contravention of public policy, *Morton Salt v. Suppiger Co.*, 314 U. S. 488, 86 L. Ed. 363, 62 S. Ct. 402 (1942); *Pyrene Mfg. Co. v. Urguhart, et al.*, 69 F. Supp. 555, aff'd, 175 F. (2d) 408 (1949).

The Supreme Court in the *Morton Salt* case observed that a marked distinction exists between patent misuse cases involving attempts to contravene public policy by expanding the patent grant, and restraint of trade cases under the anti-trust laws. This decision makes it abundantly clear that the controlling criterion in a misuse of patents suit is not the actual amount of competition restrained, but the fact that the patentee was engaging in a practice which to the extent it is successful would tend to restrict commerce. This Court rejected the idea of measuring the reasonableness of the restraint imposed. Once it is recognized that there is no real difference in intent and purpose between the tie-in cases and agreements not to deal in competing devices, it becomes apparent that the *Morton Salt* case prohibits restrictive provisions prevent-

ing licensees from engaging in the manufacture or sale of competing devices. See *Automatic Radio Mfg. Co. v. Hazeltine Research Inc.*, 339 U. S. 827, 94 L. Ed. 1312, 70 S. Ct. 894 (1950), where Justice Minton speaking for the Court stated at pages 830-831:

> "Petitioner directs our attention to the 'tie-in' cases. These cases have condemned schemes * * * prohibiting production or sale of competing goods * * *."

It would appear that the Court has characterized license agreements protecting the licensor from competition as falling within the category of those tie in cases exemplified by the *Morton Salt* case. In any event such a contract or agreement represents an extension of the grant of the patent contrary to a long line of decisions of this Court which hold that the public interest in patents is paramount.

However, the Supreme Court of Ohio either misconstrued the marked distinction between misuse of patent cases and cases arising under the anti-trust laws, or it refused to apply the proper rule to the case at bar. A reading of the opinion patently discloses that the Ohio Supreme Court held that the burden was on petitioner to show the effect of the restrictive covenant was to substantially lessen competition. This is clearly not the rule under the *Morton Salt* case. The Court further sought to distinguish the instant case from the misuse of patents cases on the ground that the case at bar involved merely a suit for recovery of royalties, rather than patent infringement. After referring to the misuse of patents cases, the Supreme Court of Ohio observed that they involved primarily suits for patent infringement, and stated at page 326 of its opinion, "However, we are not here dealing with a patent infringement suit * * *."

We submit that the Supreme Court of Ohio completely overlooked the fact that under the Misuse of Patents Doctrine the paramount interest to be protected is the public interest. The operative fact which is repugnant to and in violation of that public interest is the presence of a restrictive covenant prohibiting the licensee from engaging in a competitive business. In other words, the harm to the public interest arises *ipso facto* from the restrictive covenant itself, and consequently the degree of harm to the public interest is identical, whether there is involved a suit for patent infringement or an action for the recovery of royalties. The rationale of the Misuse of Patents Doctrine is to deter monopolistic practices by the patentee, by depriving the patentee who engages in such practices from enforcing his rights under the patent. The doctrine patently applies with equal force to suits for infringement or for recovery of royalties.

Its origin is to be found in the patent statute and the U. S. Constitution, both of which clearly express the limited nature of the patent grant. Accordingly, the judgment of the Supreme Court of Ohio conflicts with *Morton Salt v. Suppiger* and also with a long line of well established decisions of this Court, epitomized in *U. S. v. Line Material Co., supra.*

II. The Federal courts which have directly passed on this question have unanimously held that the presence of a provision in a patent license agreement protecting the patentee from competition is illegal per se.

The Federal cases of *National Lock Washer Co. v. George K. Garrett Co., Inc., McCullough v. Kammerer,* and *Park-In Theatres, Inc. v. Paramount-Richards Theatres, supra,* unequivocally declare that a patent license agreement containing a covenant prohibiting the licensee

from the manufacture, sale or use of competing devices is illegal per se as against public policy. By definition, the very purpose of the doctrine of these cases is to discourage from the outset action which is deemed harmful to the public interest. The doctrine is primarily concerned with guarding against the injurious consequences to the public interest which necessarily result from the policy of a patentee inserting such restrictive covenants in license agreements. Such a doctrine is astonishingly realistic as it has the effect of initially protecting the public interest without interfering or unduly restricting the patentee's rights. The doctrine is neither new nor novel, but is fully embraced within the rationale of the *Morton Salt* case.

Referring to the line of decisions of the Supreme Court denying relief to patentees who abuse their rights acquired under patents, the Court of Appeals for the Third Circuit in the *National Lock Washer* case recognized that the philosophy of the patent misuse decisions of the Supreme Court clearly condemned any scheme by which a patentee attempted to expand his patent grant. That court held that the mere presence of a restrictive provision in the patent license agreement which confined a licensee's activity beyond the precise monopoly covered by the patent grant disentitled the patentee to any relief. In this case the court decided that a provision in a patent license agreement precluding the licensee from the manufacture or sale of competing devices was illegal per se, and consequently was sufficient to sustain the defense of patent misuse.

The pertinency of the *Lock Washer* case cannot be successfully challenged. A reading of the restrictive provisions in the contract there under consideration and paragraph 10 of the present license agreement makes it abundantly clear that they are substantially identical.

The *Lock Washer* case was cited by the Supreme Court in *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc., supra.*

A later case decided by the Court of Appeals for the Ninth Circuit, *McCullough v. Kammerer, supra,* likewise has applied the doctrine of patent misuse as extending to restrictions by way of patent license agreements protecting the licensor from competition on other articles or devices. The facts of that case present a close parallel to the present case. In the *McCullough* case, the license agreement in suit was an exclusive license, as is true in the case at bar.

In the *McCullough* case, the licensee was prohibited by agreement from making and using any article or device other than that covered by the licensed patent. Petitioner in the case at bar is restricted by the license agreement in suit from making and selling any muffler other than that covered by the patent.

The defendant in the *McCullough* case contended that the restrictive provision prevented free competition and consequently the contract was unenforcible. The lower court overruled this contention and on appeal a majority of the court reversed.

The principle that protection from competition by contract in connection with patent devices, however sought, will deprive the patentee of relief is very aptly stated by Judge Denman, in the *McCullough* case at page 762, as follows:

> "The public, in a system of free competition, is entitled to have the competition of other devices with a patented device and here it is against that public's interest to use the patent to suppress such competition. As stated by the Supreme Court in the recent case of Transparent-Wrap Mach. Corporation v.

> Stokes & Smith, 329 U. S. 637, 644, 67 S. Ct. 610, 614: 'Protection from competition in the sale of unpatented materials is not granted by either the patent law or the general law. He who uses his patent to obtain protection from competition in the sale of unpatented materials extends by contract his patent monopoly to articles as respects which the law sanctions neither monopolies nor restraints of trade.' "

Again, the similarity between the restrictive provisions of the *McCullough* case and the one at bar is most striking.

Writ of certiorari was denied in the *McCullough* case on October 11, 1948, reported at 335 U. S. 813, 93 L. Ed. 368, 69 S. Ct. 30.

The most recent case on the question is *Park-In Theatres v. Paramount-Richards Theatres, supra,* holding the recovery of royalties is precluded under an agreement containing a provision preventing competition. That case discusses the precise question involved in the case at bar, as well as the *Lock Washer* and the *McCullough* cases and the applicable opinions of the Supreme Court. The covenant of the license agreement involved in the *Park-In Theatre* case is also very similar to paragraph 10 in the instant case. There the court held that such a covenant constituted an unwarranted attempt to extend the patentee's monopoly and, accordingly, denied the patentee any relief. Writ of certiorari was denied in the *Park-In Theatre* case on June 4, 1951 reported at 341 U. S. 950, 95 L. Ed. 1373, 71 S. Ct. 1017.

It is clear from the foregoing cases that a restrictive covenant such as the one contained in the instant case is illegal per se, for the reason that such a covenant prevents petitioner from making any other muffler and from engaging in any business competing with the patented muffler. This necessarily constitutes a suppression of com-

petition and an unlawful attempt to expand the patent grant. We submit that under the doctrine laid down by the foregoing cases it is not necessary that evil intent or actual injury to the public be shown, but it is sufficient if the restriction tends to suppress competition to the detriment of the public, which will necessarily be the result when a contract contains a covenant of the nature herein involved. This doctrine was also reemphasized by this Court in *Transparent-Wrap Machine Co. v. Stokes*, 329 U. S. 637, 91 L. Ed. 563, 67 S. Ct. 610 (1946), where the Court stated at p. 641:

> "Though control of the unpatented article or device falls short of a prohibited restraint of trade or monopoly, it will not be sanctioned. Morton Salt v. G. S. Suppiger Co. * * *. For it is the tendency in that direction which condemns the practice and which, if approved by a court, either through enjoining infringement or enforcing the covenant would receive a powerful impetus."

The rule against misuse of patents is based on the policy of the anti-trust laws and it is well settled that these laws forbid an agreement in restraint of commerce whether or not followed by overt acts carrying it to effect. *U. S. v. Trenton Potteries Co.*, 273 U. S. 392, 71 L. Ed. 700, 47 S. Ct. 377 (1927).

As previously stated, the Supreme Court of Ohio completely disregarded the misuse of patents cases in attempting to distinguish the instant case on the ground that it involved only a suit for the recovery of royalties rather than patent infringement.

Accordingly, the judgment of the Supreme Court of Ohio is directly contrary to the decisions of the Circuit Court of Appeals for the Ninth Circuit and the Circuit Court of Appeals for the Third Circuit.

III. Local rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the patent statutes, misuse of patents doctrine, and the Clayton Act, must yield to the greater public interest which precludes the enforcement of such unlawful agreements.

Regardless of the finality of the decision of the Supreme Court of Ohio as a matter of local law, in cases such as the one at bar where the claim is for royalties under a patent license agreement and the defense is illegality under the patent and anti-trust laws, any question of estoppel to assert such illegality would logically seem to be a Federal question to be resolved in the light of the purposes and policies of the Federal patent and anti-trust laws, and this Court has so held. *Sola Electric Co. v. Jefferson Elec. Co., supra*; *Scott Paper v. Marcalus*, 326 U. S. 249, 90 L. Ed. 47, 66 S. Ct. 101 (1945); *MacGregor v. Westinghouse Electric Mfg. Corp., supra.*

It is important, however, that here there was no factual basis for an estoppel. The defense of illegality based on the misuse of patents doctrine and the Clayton Act was raised and argued by petitioner before the Board of Arbitrators prior to the award here sued upon. That same defense was specifically pleaded and likewise relied upon by petitioner in its cross-petition to vacate the award in the Trial Court, and in its subsequent appeal. None the less, the Supreme Court of Ohio, apparently in an attempt to buttress a weak opinion, resorted to some vague concept of estoppel in the second syllabus of the case, the syllabi being the law of the case under Ohio practice.

The decisions of this Court and of lower Federal Courts have all held that the parties to a suit or the Court *sua sponte,* can raise the question of illegality of an agreement at any time where a public interest is involved, and

that the defense of illegality cannot be effectively waived. *Sola Electric Co. v. Jefferson Electric Co., supra*; *Scott Paper v. Marcalus, supra*; *Oscanyan v. Winchester Repeating Arms Co.*, 103 U. S. 261, 26 L. Ed. 539 (1881); *Roberts v. Criss*, 266 F. 296, 302 (C. C. A. 2, 1920); *Fitzsimons v. Eagle Brewing Co.*, 107 F. 2d 712 (C. C. A. 3, 1939); *Williston, Contracts* (Rev. Ed.) Sec. 1630A; *Restatement of Contracts*, Sec. 600, Comment.

In *Nachman Spring-Filled Corporation v. Kay Mfg. Co.*, 139 Fed. 2d 781 (C. C. A. 2, 1943), Judge Frank speaking for the Court stated at page 783:

> "* * * This contention was not made in the court below; but we do not reject it on that account, since Muncie Gear Co. v. Outboard Co., 316 U. S. 759, 766, 768, 62 S. Ct. 865, 870, 86 L. Ed. 1171 seems to us to hold that regard for 'public interest sought to be safeguarded by the patent statutes, and so frequently present but so seldom adequately represented in patent litigation' requires that an upper court should consider important defenses in such litigation even though not raised in the court below."

This Court had also held in *Oscanyan v. Winchester Repeating Arms Co.*, 103 U. S. 261, 26 L. Ed. 539 (1881) that the illegality of the contract could be considered without being pleaded, saying at page 267:

> "The position of the plaintiff that the illegality of the contract in suit cannot be noticed, because not affirmatively pleaded, does not strike us as having much weight. We should hardly deem it worthy of serious consideration had it not been earnestly pressed upon our attention by learned counsel but it (objection of illegality) was one which the court itself was bound to raise in the interest of the due administration of justice. The court will not listen to claims founded upon services rendered in violation of common decency, public morality or the law * * *. It would not

be restrained by defects of pleading, nor, indeed, could it be by the defendant's waiver, if we may suppose that in such a matter it would be offered."

Also, in *Mercoid Corporation v. Mid-Continent Co.*, 320 U. S. 661, 88 L. Ed. 376, 64 S. Ct. 268 (1944), Mr. Justice Douglas, speaking for the Court said, at page 670:

" 'Courts of equity may, and frequently do, go much farther both to give and withhold relief in furtherance of the public interest than they are accustomed to go when only private interests are involved.' Virginian Ry. Co. v. System Federation, 300 U. S. 515, 552, 57 S. Ct. 592, 601, 81 L. Ed. 789. 'Where an important public interest would be prejudiced' the reasons for denying injunctive relief 'may be compelling.' City of Harrisonville v. W. S. Dickey Clay Co., 289 U. S. 344, 338, 53 S. Ct. 602, 603, 77 L. Ed. 1208. And see U. S. v. Morgan, 307 U. S. 183, 194, 59 S. Ct. 795, 801, 83 L. Ed. 1211. * * * That principle is controlling here. The parties cannot foreclose the courts from the exercise of that discretion by the failure to interpose the same defense in an earlier litigation. Cf. Sola Electric Co. v. Jefferson Electric Co., 317 U. S. 173, 63 S. Ct. 172 (87 L. Ed. 165)."

In *Fitzsimons v. Eagle Brewing Co.*, 107 Fed. 2d 721 (C. C. A. 3, 1939), Justice Clark speaking for the Court stated, at page 713:

"As the interest of the state and not the quality of the act is important, questions of mala in se and mala prohibita, moral turpitude, etc. are irrelevant and have been so declared by the great weight of authority."

This effectively refutes the distinction by the Supreme Court of Ohio at page 328 in characterizing the restrictive covenant in issue as not "so pernicious and so inherently bad that its provisions could not be waived."

The foregoing cases confirm that the relative equities of the parties to a suit are subordinate to the protection of the public interest and, accordingly, parties cannot be estopped from raising the defense of illegality nor can the illegality be waived.

In *Sola Elec. Co. v. Jefferson Elec. Co.*, 317 U. S. 173, 63 S. Ct. 172, 87 L. Ed. 165 (1942), Justice Stone speaking for the Supreme Court stated, at page 177:

> "Local rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the Sherman Act must yield to the Act's declaration that such agreements are unlawful, and to the public policy of the Act which in the public interest precludes the enforce of such unlawful agreements. Cf. Morton Salt Co. v. G. S. Suppiger Co., 314 U. S. 488, 492, 493, 86 L. Ed. 363, 365, 366, 62 S. Ct. 402."

Justice Frank in *Nachman Spring-Filled Corporation v. Kay Mfg. Co., supra,* in commenting on the *Sola* case and in answer to the argument that the *Sola* doctrine is applicable only to an agreement which fixed prices, after stating that the Court could not agree to such an argument, said:

> "The citation in the Sola opinion of the Morton Salt case is significant * * *."

Indeed it is significant, for in the latter case this Court based its decision on the Misuse of Patents Doctrine and held that it was not necessary to determine whether there had been a violation of the Clayton Act. In other words, the *Sola* doctrine supports petitioner's contention that local rules of estoppel are subordinate to the protection of the public interest whether that interest arises from Federal statutes or judicial decisions and, accordingly, courts must in the interest of the public have a free hand to chal-

lenge any agreements which tend to invade the public's rights. This is the most reasonable interpretation of the *Sola* doctrine for as this Court said in *Katzinger v. Chicago Metallic*, 329 U. S. 394, 91 L. Ed. 374, 67 S. Ct. 416 (1947), in an opinion by Mr. Justice Black, at page 401:

> "Moreover, solicitude for the interest of the public fostered by freedom from invalid patents and from restraints of trade, which has been manifest by the line of decisions of which the Scott Paper Co. and Sola Cases are two of the latest examples, requires that there should be no departure from the guiding principles they announced."

These same guiding principles dictate the conclusion that one who seeks to challenge an invalid license provision should be permitted to make that challenge. It seems clear that there are no considerations arising from the simple licensor-licensee relationship which would justify a contrary rule. See also *MacGregor v. Westinghouse Electric & Mfg. Corp., supra*; *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc., supra.*

The foregoing authorities make it abundantly clear that a patent licensee is not estopped irrespective of state doctrines of estoppel, to challenge the legality of a license agreement. Accordingly, the decision of the Supreme Court of Ohio in the case at bar in holding that a licensee is estopped to raise a misuse of patents defense in a royalties action is contrary to the decisions of this Court subordinating local rules of estoppel to the paramount Federal policy, and should be reviewed by this Court.

CONCLUSION.

The obvious conflict of the decision of the Supreme Court of Ohio with decisions of this Court and with the decisions of the Courts of Appeals for the Third and Ninth Circuits on the questions herein presented, should be resolved by this Court. For the foregoing reasons this petition for a writ of certiorari should be granted.

WHEREFORE, petitioner prays that a writ of certiorari issue out of and under the seal of this Honorable Court directed to the Supreme Court of the State of Ohio commanding that court to certify and send to this Court for its review and determination a full and complete transcript of the record below, and that the decision of the Supreme Court of Ohio be reversed, and that the petitioner shall have such other and further relief as may be just.

LAWRENCE C. SPIETH,
1216 Union Commerce Bldg.,
Cleveland 14, Ohio,
Counsel for Petitioner.

HAROLD K. BELL,
WILLIAM M. NELSON, JR.,
JAMES S. PEDLER, JR.,
1216 Union Commerce Bldg.,
Cleveland 14, Ohio,
Of Counsel.